
OPEB Commission

May 31, 2012



Agenda

1. Welcome and approval of minutes from April 5 meeting
2. Answers to select open questions
3. Review of Commission mandate
4. Reports to the Commission
 - a. Presentation by a representative from AFSCME
 - b. Presentation by a representative of Mass Retirees
 - c. Presentation by Worcester City Manager
 - d. Presentation by Standard & Poor's
 - e. Report on other states cost containment measures
5. July Meeting plan
6. Other business
7. Adjournment

Answers to Open Questions

- Additional detail of cost by Age (additional information in Appendix 1)
 - The cost to insure “Pre-65” retirees is twice as expensive as it is to insure those that are 65 and older based on data from the state plan.
 - Pre-65 represents 28% of state retirees but 43% of PAYGO cost
- Percentage of liability associated with early retirement
- Part-time creditable service: Each Retirement Board has jurisdiction to determine eligibility for membership of part-time employees [G.L. c. 32, § 3(2)(d)], subject to PERAC review and approval. The Board’s regulations are posted on the PERAC website under each Board’s profile. <http://www.mass.gov/perac/dirs/boardprofile.htm>
- Retiree Health Care Insurance in Private Sector: In 2010, 8.2% of MA employers offered retiree health care to people under 65, and 7.5% offered retiree healthcare to people over 65.*
- Municipal Updates (see pages 4-6)
 - Adoption of Municipal Health Care Reform
 - Estimates of OPEB Liabilities
- Health Care Security Trust (see page 7)

*Source: “Table II.A.2.e(2010) Percent of private-sector establishments that offer health insurance by plan options and insurance offerings to retirees by State: United States, 2010”, *Medical Expenditure Panel Survey*, http://meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2010/tiia2e.pdf.

Municipal Updates: Adoption of Health Care Reform

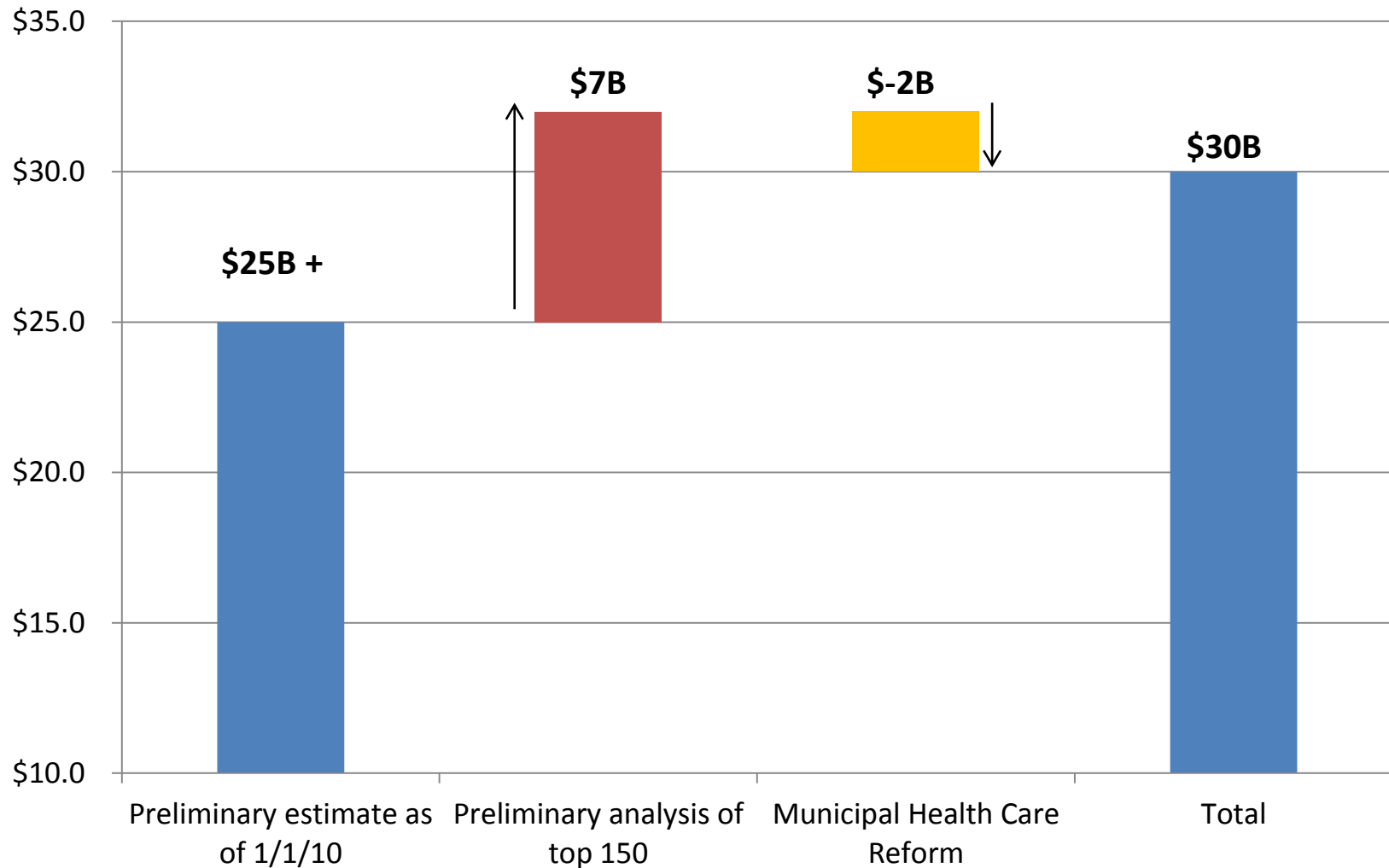
- On July 12, 2011, Governor Patrick signed municipal health care reform legislation that is providing significant and immediate savings to cities and towns and addressing long-term OPEB liabilities, while preserving a meaningful role for organized labor in the process, and protecting health care quality for retirees and municipal employees.
- Cities and towns now have the choice of a new, expedited process to implement changes to existing local health care plan design or join the state's health insurance pool. This reform is one of the most significant measures to assist cities and towns in the past 30 years.
- As of May 30, 75 local government entities (cities, towns, regional school districts, other districts) have used the new municipal health care reform process for an estimated total annual premium savings (municipality and employees) of more than \$77 M and net municipal savings of \$57 M in the first year of implementation.
- In addition, more than a dozen communities have reached agreement outside the law since Governor Patrick changed the municipal health care cost conversation by filing his reform proposal in January 2012, for an estimated \$30M in municipal premium savings.
- Total annualized savings to date have exceeded the initial estimate of \$100M in savings for local government statewide, which would equate to a 5%+ cost reduction for all health care insurance and similar reductions to the OPEB liability.

Municipal Updates: Review of OPEB Liabilities

- Legislation passed with the FY2012 budget now requires municipalities and other government entities to report their OPEB valuations to PERAC
- PERAC has received 253 valuations for municipalities and other government organizations since passage of the legislation
- The information available from these submissions and other studies allows us to account for approximately 80% of the state's liabilities. Initial review is focused on the largest 150 municipalities.
- Total estimated OPEB Liability for municipalities is approximately \$30B
- This does not include the potential impact of new accounting standards which can have a material reduction in the liability by changing the “discount rate” but does not change the overall economics

Municipal Update: Review of OPEB Liabilities

Amount in billions*



*Estimates per ANF. Does not include the impact of accounting changes, now being used by some municipalities, that allows for using a higher discount rate which results in a decrease in the total liability.

Health Care Security Trust: Overview

- Oversees \$384 M investment portfolio – the State Retiree Benefits Trust Fund - to partially fund retiree health liabilities for current and future state retirees. (G.L c.29D, and G.L.c.32A,§24)
- Board includes appointees of the Administration, Treasurer, GIC, PERAC, and OSC (G.L.c.29D,§4)
- Originally constituted to oversee the investment of funds received from the Master Settlement Agreement between tobacco companies and the states. The majority of these funds, however, have been allocated to the General Fund. (G.L. c.29D,§1, modified by annual appropriation bills)
- Investment operations are performed by Pension Reserves Investment Management (PRIM) Board using PRIM'S standard General Asset Allocation. The SRBTF is maintained in a separate sub-account.
- Legislation passed in 2011 would phase-in 100% of proceeds from Tobacco Master Settlement Agreement over 10 Years (beginning with \$27.6 M or 10% in FY13).
- SRBTF is now available for municipalities and other government entities. (G.L. c.32A,§24 and c.32B,§20)

Review of Mandate

The Commission shall...

- Consider the range of benefits that are or should be provided as well as the current and anticipated future cost of providing them;
- Consider and may make recommendations on how best to divide the costs between the commonwealth and employees;
- Study the operation and structure of the group insurance commission or any other aspects of employee healthcare the commission deems appropriate; and
- Upon appropriation of sufficient funds, engage professional advisors as needed to accomplish its purposes

Review of Mandate: Current Cost of Benefits

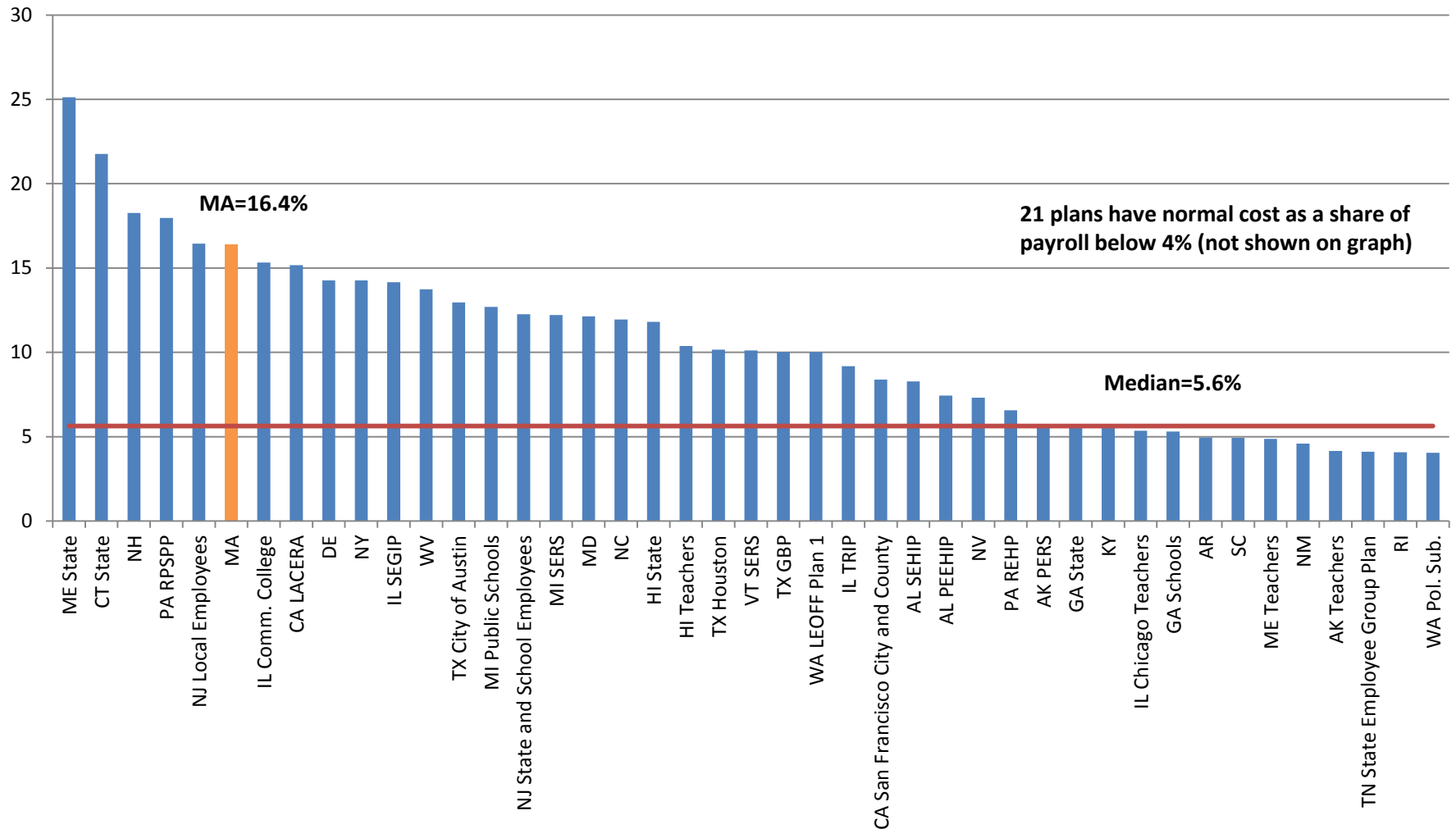
- Normal Cost: The present value of future benefits that are “earned” by employees in a given year. Can be expressed as a percentage of salary to provide context to the current value of the benefits.
- Average Normal Cost for states employees is 16% of salary and is higher for public safety employees who typically retire at a younger age and receive benefits for a longer period of time in retirement.

	Group 1	Group 2	Group 3	Group 4	Total
Percent Active	82%	6%	2%	10%	100%
Average Normal Cost (NC)	\$7,659	\$9,071	\$10,865	\$13,704	\$8,412
Normal Cost/Avg. Salary	15%	18%	16%	24%	16%

Source: Aon Hewitt

Review of Mandate: Cost in MA is among highest

Normal Cost as Percentage of Payroll*



Source: Alicia H. Munnell et. al., "Comparing Compensation: State-Local Versus Private Sector Workers." *Center for Retirement Research at Boston College*. September 2011. Study of 64 plans across 48 states and DC.

Normal cost as a percentage of salary is a useful metric because it accounts for differences between average salary levels. Most of the key assumptions from [these plans](#), moreover, are reasonably similar (e.g. 55 of 64 have a discount rate between 4 and 5%)

Review of Mandate: Implications of Rising Cost

- Total health insurance expenditures by municipalities have increased from 12% to 19% of property tax revenue between 2001 and 2010.
- The portion of municipal health insurance costs attributable to retirees is estimated to be over \$700 M annually. Funding the actuarial Annual Required Contribution (ARC) would cost approximately \$1.75-2 B.
- The cost of retiree health insurance for municipalities has increased by approximately \$250 M over the last 10 years adjusting for inflation.
- There is continued pressure on state and municipal budgets to maintain adequate funding for retiree pensions

Comparative Analysis: Most Other States Have Taken Control Measures

- Setting minimum service requirement at 20 or 25 years
- Pro-Rating Premiums based on years of service:
 - As a % of Total Premiums
 - As a % of dollar costs, using a pre-defined figure per person
- Dollar Cap for Employer Contributions
- Employee contributions
- Minimum Age Requirement
- Other measures not included in the details following:
 - Provide only “continuing coverage” for employees that are retiring directly from state and local government
 - EGWP program
 - Level of survivor coverage

29 States Currently Pro-Rate Retiree Health Insurance Premiums

States with service requirement of 20+ Years (Service Requirement)	States that Pro-Rate as a Percentage of the Total Premium (Maximum Years of Service)
New Hampshire (20) for Group 1 employees starting work after 7/1/03 - before that, eligible after 10 YOS at 60	Alabama (25)
New Jersey Teachers (25)	California (20)
Missouri (26) [N/A]	Delaware (20)
States that Pro-Rate as a Maximum Dollar Amount of Premiums (Maximum Years of Service)	Hawaii (25)
Colorado (20)	Illinois (20)
Florida (30)	Louisiana (20)
Kentucky (20)	Maine (20)
Nevada (20)	Maryland (16)
North Dakota	Michigan (30)
Oregon (30)	Nebraska (28)
Tennessee (30)	New Mexico (16)
Virginia	North Carolina (20)
States that Pro-Rate Based on Other Characteristics	Ohio (30)
Indiana prorates based on age	Rhode Island (28) for employees who retired between 7/1/89 and 10/1/08 - employees retiring after that must be 59 or older
West Virginia	South Carolina (25)
	Vermont Teachers (25)

Source: Center for Retirement Research report, Center for State and Local Government Excellence report, Maine legislation, Michigan.gov, Vermont State Treasurer, myfrs.com, kyret.ky.gov, mchcp.org, State of New Hampshire Division of Personnel, in.gov, Rhode Island Office of Employment Benefits, OPEB Commission Research

10 other states (39 total) have put cost control measures in

State [Normal Cost as a % of Salary]	Provision
Iowa [0.71]	Limited Employer Contributions
Kansas [0.76]	Limited Employer Contributions
Minnesota [1.99]	Limited Employer Contributions
Mississippi [0.6]	Limited Employer Contributions
Wisconsin [2.71]	Limited Employer Contributions
West Virginia* [13.73]	Limited Employer Contributions for new employees
Alaska [4.15-5.76]	Minimum Age
Rhode Island* [4.07]	Minimum Age for Employees Retiring After 10/1/08
South Dakota [0.67]	Increases For Retiree Premium Based on Age
Arkansas [4.95]	Dollar Cap For Employer Contributions
Oklahoma [1.95]	Dollar Cap For Employer Contributions
Connecticut [2.78-21.76]	Employee Contributions
Indiana* [N/A]	VEBA

*Counted in prior slide

Source: Center for Retirement Research Report, Center for State and Local Government Excellence report, Kansas Pre-retirement Planning Guide, New Jersey Treasury, State of Connecticut Office of the State Comptroller, Rhode